



DEPARTMENT OF  
**FINANCE**

ARNOLD SCHWARZENEGGER, GOVERNOR

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February 27, 2009

Mr. Mark Leary, Executive Director  
California Integrated Waste Management Board  
1001 I Street, MS-25A  
P.O. Box 4025  
Sacramento, CA 95812-4025

Dear Mr. Leary:

**Final Report—Warren Unilube, Inc., California Used Oil Recycling Fees**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Used Oil Recycling Fee Returns submitted by Warren Unilube, Inc. for the period July 1, 2007 through June 30, 2008.

The enclosed report is for your information and use. After review of the draft report, Warren Unilube, Inc. chose not to provide a written response. In accordance with Finance's policy of increased transparency, this report will be placed on our website.

We appreciate the assistance and cooperation of Warren Unilube Inc.'s staff during our audit. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Zach Stacy, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Julie Arico, Accounting Administrator, Administration and Finance Division, California Integrated Waste Management Board  
Ms. Shirley Willd-Wagner, Manager, Financial Assistance Division, California Integrated Waste Management Board  
Ms. Susan Villa, Branch Manager, Administration and Finance Division, California Integrated Waste Management Board  
Mr. George Mendoza, Audit Manager, Audit and Evaluation Unit, California Integrated Waste Management Board  
Mr. Sam C. Thomas, Controller, Warren Unilube, Inc.  
Ms. Bobbie Tucker, Credit Manager, Warren Unilube, Inc.

# AN OIL RECYCLING FEE AUDIT

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Warren Unilube, Inc.  
Used Oil Recycling Fee Returns  
For the Period July 1, 2007  
through June 30, 2008

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

#### **MEMBERS OF THE AUDIT TEAM**

Kimberly A. Tarvin, CPA  
Manager

Zachary Stacy  
Supervisor

#### **Staff**

Alice Yip

This report is also available on our website at <http://www.dof.ca.gov>.

You can contact our office at:

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300 Capitol Mall, Suite 801  
Sacramento, CA 95814  
(916) 322-2985

# AN OIL RECYCLING FEE AUDIT

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## Background

The Legislature enacted the California Oil Recycling Enhancement Act (Act) (Public Resources Code Sections 48600 through 48691) to reduce illegal disposal of used oil, recycle and reclaim used oil in order to recover valuable natural resources, and to avoid damage to the environment and threats to public health. This Act gives the California Integrated Waste Management Board (Board) the authority to adopt and implement a used oil recycling program, and to collect fees from oil manufacturers at a rate of 16 cents for each gallon of lubricating oil sold, transferred, or used in California. These fees support the California Used Oil Recycling Fund from which various state and local programs are operated. These programs help promote local efforts to recycle used oil before harmful environmental impacts can occur.

Warren Unilube, Inc. (Warren), located in West Memphis, Arkansas, is a subsidiary of Warren Oil Company, Inc. Warren produces over 55 million gallons of lubricants and chemicals annually.

## Scope

The Department of Finance, Office of State Audits and Evaluations, conducted a compliance audit of the California Used Oil Recycling Fee Returns (Returns) submitted by Warren to the Board. The objective of the audit was to determine whether Warren accurately reported the industrial and lubricating oil sold, transferred, or used in California, and remitted the proper fees in accordance with the terms and conditions of the Act for the period July 1, 2007 through June 30, 2008.

We conducted our audit in accordance with *Government Auditing Standards*. In order to design adequate procedures to evaluate the California Used Oil Recycling Fee Returns, we obtained an understanding of the related internal controls. Warren is responsible for ensuring accurate reporting of the used oil recycling fees and oil sales and ensuring compliance with the Act.

## Methodology

To determine whether Warren reported the used oil recycling fees and oil sales in accordance with the terms and conditions of the Act, we performed the following procedures:

- Interviewed key personnel.
- Obtained an understanding of the internal controls related to the preparation of the Returns.
- Obtained an understanding of the information system used for accounting, inventory, and sales.
- Reviewed Warren's accounting records and other reports.
- Reviewed the customer master list to determine completeness in reporting California sales.

- Reviewed the product list of lubrication and industrial oil to determine completeness in reporting California sales.
- Traced the gallons of industrial and lubrication oil sold in California reported on the Returns to purchase orders, bills of lading, invoices, and other relevant documents.
- Determined whether valid exemption certificates were on file for exempt transactions claimed on the Returns.

The results of the audit are based upon our review of documentation and other information made available to us. The audit was conducted from October 2008 through December 2008.

## Results

Warren accurately reported the lubrication oil on its Returns as presented below. However, the industrial oil sold was not reported, as discussed in the finding.

<b>Warren Unilube, Inc.</b> <b>Used Oil Recycling Fee Returns</b> <b>For the Period July 1, 2007 through June 30, 2008</b>			
<b>Categories</b>	<b>Sales and Fees Per Fee Payer Returns</b>	<b>Audited Sales and Fees</b>	<b>Over/(Under) Reported</b>
Industrial Oil Sold (Gallons)	0	162,599	(162,599)
Gross Lubrication Oil Sold (Gallons)	1,963,677	1,963,677	0
Less: Exempt Transactions (Gallons)	0	0	0
Total Lubrication Oil Sold (Gallons Subject to Fee)	1,963,677	1,963,677	0
Lubrication Oil Fees (\$0.16 per gallon)	\$314,188	\$314,188	\$0

## FINDING      Industrial Oil Sales Not Reported to the Board

Condition:      Because Warren Unilube, Inc. did not report industrial oil sales on its Returns in accordance with the California Oil Recycling Enhancement Act, Public Resources Code 48671, this information was not included in the data reported to the Legislature. The table below shows the unreported industrial oil sold during the last three fiscal years.

Fiscal Year	Industrial Oil Sold (Gallons)
2005-06	172,651
2006-07	170,950
2007-08	162,599
Total	506,200

Recommendation: Warren Unilube, Inc. should ensure that the Returns include the gallons of industrial oil sold or transferred in California.

This report is intended for the information and use of Warren and the Board and is not intended to be and should not be used by anyone other than the specified parties. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.